

PUBLIC EMPLOYEES RETIREMENT BOARD

Employee Investment Advisory Council

100 North Park

Helena MT 59601

April 6, 2004

Kathy Samson, Council Chair with the following in attendance, called the meeting to order:

Council Members:

Kathy Samson, Public Employee's Retirement Board Representative

Angela McDannel, State Employee Representative

Kevin McRae, State Employee Representative

John Northey, State Employee Representative

Jim Penner, Board of Investments Representative

Tom Schneider, Labor Organization Representative

Tom Bilodeau, Labor Organization Representative

Jim Christnacht, Retired Public Employee Representative

Ron Alles, Local Government Employee Representative

Terrence Smith, Local Government Employee Representatives

Glen Leavitt, University System Representative

Council Member who attended via conference call: Lorraine Reid, Local Government Employee Representative

Council Members who were excused: Pam Fleisner, School District Employee Representative

Others in attendance are as follows:

MPERA staff: Keith McCallum, Roxanne Minnehan, Carolyn Miller, and Kelly Jenkins. Scott A Farris:

Consultant for Arnerich Massena and Associates, Inc. and Marcia Clark: Senior Vice President and Account Manager for PIMCO

HOUSEKEEPING ITEMS

Ron Alles moved to accept the minutes of the March 9, 2004 EIAC meeting; Tom Schneider made the second. The motions passed with ten votes in favor and none opposed. (One of the eleven council members arrived just after the motion passed.) These minutes are now available on our website:

<http://www.discoveringmontana.com/doa/perb/perb.htm>

457 DEFERRED COMPENSATION PLAN - MID CAP VALUE MANAGER SEARCH
TO REPLACE STRONG OPPORTUNITY INV

Scott Farris consultant for Arnerich, Massena & Associates, Inc. presented the manager search.

Tom Bilodeau moved to recommend to the MPERB to adopt Hotchkis & Wiley Mid Cap Value “A” for the 457 Plan Value Fund Option. Tom’s rationale is that Hotchkis & Wiley has shown high performance in Up and Down markets; and has established a consistent track record over time. Hotchkis & Wiley has also established style, and appropriate stock distribution and size. John Northey made the second; the question was called; resulting with 11 votes in favor and none opposed.

457 PLAN ASSET ALLOCATION FUNDS DISCUSSION
PRICING, STRUCTURE, RECOMMENDATION

- Kathy Samson states we may not be exercising due diligence if the underlying investment options within the current profile funds do not meet the criteria established in the IPS for all investment options.
- The advantage to using our own custom funds is that all funds within will go through the IPS process and will meet the established criteria. EIAC will be able to monitor the underlying managers.
- The Great West fee to offer our 3 custom allocation funds is \$42K.
- Scott Farris stated that he would like to re-visit this pricing proposal, telling Great West the experience Arnerich Massena and Associates, Inc. has with other similar plans. Arnerich Massena and Associates, Inc. has put together three very similar portfolios for other plans that are charging no additional cost to provide that service.
- Ron Alles feels \$42K would be better spent to build an education platform that could benefit more participants than 3 custom allocation funds will.
- John Northey expressed a philosophical issue: “Should I, as a participant, contribute part of my earnings for an educational campaign to sell a program to people who don’t participate.” He has no problem with educating the current participants on what the options are and how they can structure asset allocation.
- Terry Smith sees no need to build asset allocation funds. He feels that educating the current participants on how to utilize the Great West software will enable them to asset allocate, customize, and automatically rebalance.
- Angela McDannel feels that participants will not utilize these GW software features.
- Tom Schneider questions whether or not we want to create and actively manage the asset allocation funds; and if it will cost \$42K.

Jim Penner moved to recommend to the MPERB to drop Great West Profile Funds and negotiate for Custom Asset Allocation Funds using EIAC/PERD approved funds. The rationale is: the current profiles are not working. One reason we have 2% participation in the five current GW asset allocation funds is because they are difficult for participants to understand. We have an obligation to provide services for our participants; most other plans have 10-15% participation. Tom Schneider made the second to the motion, the question was called: resulting with 9 votes in favor and 2 opposed.

Terrence Smith opposition was that spending \$42K to create custom allocation funds among the funds that are available to us does not make sense.

Ron Alles opposition is that we need to have an optional plan in place. Part of it may be re-negotiating a new price. Those opportunities are still available; we are dealing with less than 2% of the whole population in terms of money.

457 PLAN FEE STRUCTURE

Glen Leavitt moved to recommend to place the fee structure at the rates reflected in the Excel Spreadsheet which was saved as "Glen's Proposal" exhibit A. This new structure will move to 35 basis points for balances from 0 to \$20,000. This will reduce the asset-based fees in each group by 10 basis points; except the \$50,001 to \$100,00 asset-based fee, which is reduced by 5 basis points. EIAC has concluded under projection it will bring the Great West projected expense to the projected revenue. Glen's rationale is this will reduce the surplus growth to an estimated \$2,550 per year. Tom Bilodeau made the second; the question was called resulting in nine votes in favor and two opposed.

John Northey and Kevin McRae both opposed because currently over half the people in the plan are being subsidized and this recommended change will not reduce the subsidy of the fees enough. Plan participants with smaller balances will pay the maximum charge of \$5 with the remaining \$68 dollars of their \$73 cost subsidized by the participants who have higher balances.

PIMCO PRESENTATION BY MARCIA CLARK

Litigation: The risk of the pending PIMCO litigation to Montana is if the damage to their reputation or the size of the fine (if found guilty) was large enough to impair the ability of PIMCO to be a going concern. PIMCO feels strongly that they are an ethical firm with the intent to do the right thing and that they have acted in the absolute best interest of their clients. They have added additional staff to monitor trading in the mutual funds and will definitely keep us posted.

PENDING WORK

- 1) Scott Farris and Kathy Samson will call Perry Christie to re-visit Great West's fee for offering our 3 custom allocation funds before the next MPERB meeting, which is April 22, 2004. Kathy will inform EIAC of the results of this discussion.
- 2) Great West has a new product called Managed Account that tells participants how they should be allocating their investments based on general information and makes the investments for the participants. GW may demonstrate their new Managed Account product or bring it for consideration sometime this summer.
- 3) Great West is trying to collect data from each Mutual Fund they do business with to determine their rules for excessive trading. The rules will be loaded into the Great West system so our plan can access them and know if our participants are in violation of the rules.
- 4) There will be a NAGDA broadcast relative to Investment Selection Process and Oversight Responsibilities on May 13, 2004. Kathy will send a note out; if there is interest in attending this she will set the broadcast up in the MPERA Board Room from noon to 1:30 p.m.
- 5) A portion of the Stable Value fund was previously with the BOI; a portion was with an outside manager: State Street Research. This worked well because it captured the best of both the worlds; a long duration and a short duration. Kathy will put it on the agenda to look at the PIMCO structure, determine if PIMCO has an exclusive contract with the Stable Value and re-visit placing the Stable Value with the BOI.
- 6) 457 Plan Survey

CLOSING BUSINESS

The next meeting is tentative and will be based on need to discuss pending work. Kathy Samson adjourned the meeting.